

**Member and Core Settlement Guarantee Fund Committee  
("MCSGFC"/"Committee")  
of  
National Stock Exchange of India Limited  
Exchange Plaza, Bandra-Kurla Complex, Bandra East, Mumbai – 400051  
held on November 28, 2022**

**In the matter of the Trading Member M/s. LFS Broking Private Limited**

**CORAM:**

Ms Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Ms Anuradha Rao	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member
Mr. Ashishkumar Chauhan	- Committee Member

**ALSO PRESENT:**

Ms Priya Subbaraman	- Chief Regulatory Officer
Mr. Suresh Nair	- Vice President – Enforcement
Ms Renu Bhandari	- Vice President - Inspection

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1. M/s. LFS Broking Private Limited ("**Noticee**") is a Trading Member registered with the National Stock Exchange of India Limited ("**NSEIL**"/"**Exchange**") and enabled for trading in the Capital Market ("**CM**"), Futures & Options ("**F&O**") and Currency Derivatives ("**CD**") segments since June 2014.

**SHOW-CAUSE NOTICE (SCN-1)****Exchange Investigation**

2. The Exchange received market intelligence that LFS Broking & PMS Services (LFS-PMS) is running a monthly return scheme wherein the said entity is assuring 2% monthly returns for a minimum investment of Rs.25,000/-. Therefore, the Exchange investigated the Noticee to identify the role of the management and directors of the Noticee in the said activity.
3. The following are the observations of the Exchange:

3.1 Engagement as a principal in a business other than securities involving personal financial liability

- a. The Exchange observed that cheque No.000001 dated April 15, 2021, for Rs.10 lakhs issued by one Mr. Srikant Das in favour of LFS Broking & PMS Services was deposited in A/c. No. 1138102000008907 maintained with IDBI Bank Ltd. (IDBI). Upon verification of the bank statements of A/c. No. 1138102000008907 for the period April 2, 2021, to June 28, 2022, the Exchange observed as under:
- i. The account is in the name of 'LFS Broking & PMS Services'.
  - ii. The account belongs to Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee (PAN: BCNPR5031A).
  - iii. The account is a proprietary account opened on June 13, 2017 and operated by Mr. Saiyad Jiyajur Rahaman.
  - iv. The nature of business mentioned is 'Real Estate' in the account opening form and 'Building Construction' in the trade license.
  - v. The funds amounting to Rs.626.39 crores and Rs.626 crores were credited and debited, respectively.
- b. Upon verification of the bank statements of A/c. No. 1138102000001649 maintained with IDBI for the period April 3, 2021, to June 28, 2022, the Exchange observed as under:
- i. The account is in the name of 'MOL Commodities' (MOLC).
  - ii. The account belongs to Mr. Saiyad Jiyajur Rahaman (PAN BCNPR5031A).
  - iii. The account is a proprietary account opened on November 18, 2013, and operated by Mr. Saiyad Jiyajur Rahaman.
  - iv. Funds amounting to Rs.190.89 crores and Rs.189.72 crores are credited and debited, respectively.
- c. Upon comparative analysis of the bank statements of A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank vis-à-vis the UCC database of the Noticee, it is observed that 333 registered clients of the Noticee have credited funds amounting to Rs.2.01 crores to the aforesaid accounts through UPI payments.

- d. Upon analysis of beneficiary details of transactions in the bank account of LFS Broking & PMS Services bearing A/c. No. 1138102000008907 and MOL Commodities bearing A/c. No. 1138102000001649 vis-à-vis bank account details captured in Unique Client Code records of all clients of the Noticee, it is observed that 6219 registered clients of the Noticee have received funds amounting to Rs.266 crores from the said accounts from April 2, 2021, to June 28, 2022.
- e. As per the records of the Exchange, MOLC is an erstwhile Authorized Person of ITI Securities Broking Ltd. for the period April 1, 2013, to June 28, 2016. Upon verification of PAN, it is observed that Mr. Saiyad Jiyajur Rahaman was operating as a partner of MOLC, proprietor of LFS-PMS and MOLC, and dominant promoter and director of the Noticee.
- f. Upon further analysis, it is observed that LFS-PMS and MOLC are operating through multiple bank accounts maintained with Punjab National Bank, HDFC Bank etc.
- g. The Exchange identified multiple bank accounts in the name of LFS-PMS and Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank. Upon verification of bank statements of A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank for the period April 1, 2021, to June 30, 2022, it is observed as under:
  - i. In 8 instances, funds amounting to Rs.9.30 crores were transferred from the account of MOLC maintained with Punjab National Bank to A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank.
  - ii. In 10 instances, funds amounting to Rs.1.83 crores were transferred from A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank to A/c No. 03590340000090 of **LFS Broking Pvt. Ltd. Proprietary Account** maintained with HDFC Bank.
- h. During the period April 2, 2021, to June 28, 2022, funds amounting to Rs.32.83 crores were transferred from A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank to key managerial personnel, shareholders, and other related entities of the Noticee.
- i. Upon carrying out a search for registered portfolio managers on the website of the Securities and Exchange Board of India (SEBI), it is observed that the Noticee is a Registered Portfolio Manager. However, the Exchange did not find any records in the names of LFS-PMS and

MOLC. Therefore, it is evident that LFS-PMS and MOLC are running an unauthorized portfolio management service (PMS).

LFS-PMS is running an unauthorized PMS and Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee, is actively involved in running the said scheme

### Forensic Audit

4. The Exchange received market information that the Noticee is potentially engaged in the business of providing assured returns to its clients. Therefore, the Exchange initiated a forensic audit covering the period April 1, 2018, to July 7, 2021, to ascertain whether the Noticee is engaged in providing assured returns to its clients, quantum of funds and securities involved and identifying the role of management and directors of the Noticee in the said activity.
5. The following are the forensic audit observations:

- 5.1 Engagement as a principal in a business other than securities involving personal financial liability

- a. Pay-outs to the clients having debit balances

Upon verification of client ledgers, it is observed that the Noticee made pay-outs to the clients having debit balance the day prior to the fund transfer or the balance turning into a debit balance after the pay-out was made in 7 instances of 6 clients involving Rs.6,63,700/-.

- b. Scheme assuring fixed return to the clients

Upon perusal of the recording of the telephonic conversation between Mr. Manish Sarwan, Area Head – Senior Manager, Kolkata of the Noticee and a potential client regarding the fixed return scheme, it is observed that the Noticee is involved in providing assured returns to its clients. A summary of the translated conversation is as under:

*Apart from broking business, LFS offers 15% p.a. return on money given to LFS under PMS. Manish gave example of how when bank goes bankrupt, as per government norms, customers won't get more than Rs.1 lakh. He explained that under PMS, the comparative risk is negligible. Broker shall give payout within 24 hours. If within 3 months, customer has unutilized money and there is no trading activity, broker must return money to client. PMS has no lock-in period. Further, he provided example that if Rs.20 lakhs is invested by client, the client will*

*earn monthly interest of approx. Rs.15,000 (calculated @15% p.a.). Manish is further noted saying that it is not illegal as client will give money to LFS through cheque. He further advised client that he can show advisory certificate so that it is allowable by Income Tax. Also, Manish was noted saying that it is not chit fund. Client money will be debited from bank account and shares bought credited to demat account.*

5.2 Failure to make arrangements for internal review, at least annually, of the business to detect and prevent violations and achieve compliance of the Byelaws, Rules and Regulations of the Exchange

a. Complaints from clients regarding fixed return

Upon review of the emails sent by the clients to the Noticee, it is observed that the clients were either enquiring about the fixed returns provided by the Noticee or complaining about the Noticee's failure to provide potential fixed monthly return on their investments. Some key enquiries and complaints are as follows:

- i. Mr. Kumar Vaibhav (Client Code: 120000006) – The Noticee informed the client that he will receive Rs.20,000/- per month on his investment of Rs.1,00,000/-. The client complained about unauthorized trading in his account. Upon review of the client ledger, it is observed that the client initially invested Rs.1,00,000/- on October 5, 2019. Against the total investments of Rs.1,48,414/- during the review period, the Noticee paid Rs.4,87,905/- to the client. However, there was no potential fixed monthly pay-outs to the client. The payouts made to the client were towards trading activities in the client ledger as net bill entries (profit) reflected in client ledger amounted to Rs.2,44,904/-.
- ii. Mr. Bhaskar Pathak (Client Code: 117000002) – The client complained that the Branch Manager of the Noticee at Guwahati, guaranteed that the Noticee will provide 20% profit per month. Additionally, the client complained about unauthorized trading in his account without his knowledge. Upon review of the client ledger, it is observed that the client initially invested Rs.50,000/- on November 16, 2018. Against the total investments of Rs.50,000/- during the review period, the Noticee paid Rs.50,431/- to the client. The net bill entries (loss) reflected in the client ledger amounted to Rs.8,899/-.
- iii. Mr. Dipankar Ghosh (Client Code: 112060152) – The client issued a cheque for Rs.20,000/- in favor of LFS PMS Services. He did not receive any intimation of monthly pay-out of 2% on his deposit. He requested the Noticee to provide certificate of investment/deposit and

e-statement. However, no reply on the email from the Noticee is noted. Upon review of the client ledger, no bank payment/bank receipt entries or trading activities is noted. Additionally, no ledger or bank account is noted under the name of LFS PMS Services.

b. Investment documents not shared with client

Ms. Ghoshal Sudipta (Client Code: 112011056) – The client claimed that she did not receive any document against her investment. She requested for monthly commission statement to be sent to her UBI account. However, no reply on the email from the Noticee is noted.

c. Enquiries from potential customers on fixed return

i. The Noticee received 3 emails on its email ID [customersupport@lfsbroking.co.in](mailto:customersupport@lfsbroking.co.in) wherein people were enquiring about potential fixed returns offered by the Noticee in terms of guaranteed monthly returns or 2% monthly interest or monthly interest return. These emails were then forwarded to Mr. Soumitra Sinha, Director or Mr. Chandan Manna, Branch Manager, Arambagh. However, no reply on the email from the Noticee is noted.

ii. An email was noted whereby the sender Mr. Tapash Chowdhury questioned the Noticee about the security of principal amount and enquired whether it was a ponzy scheme. However, no reply on the email from the Noticee is noted.

d. Enquiries from potential remisier on fixed return commission

Emails were noted regarding fixed monthly income, its benefits and how one can become a remisier with the Noticee. Reference was given to the scheme which gave 2% of return every month and 1% as commission to the remisier. However, no reply to these emails from the Noticee is noted. The complaints from the clients or enquiries received by the Noticee were forwarded to the directors of the Noticee, i.e. Mr. Soumitra Sinha or Mr. Saiyad Rahaman Jiyajur or both. However, no reply on the emails from the Noticee is noted either denying or accepting the observation. In one case, the Noticee mutually settled the client's complaint in Grievance Redressal Committee of the Exchange. In another case, the Noticee reversed the brokerage paid by the client. It is observed that the Noticee received multiple emails enquiring about fixed returns to the clients. Additionally, the Noticee received complaints from existing clients whereby the clients complained that the Noticee failed to provide potential fixed monthly return to them on their investments. The Noticee received enquiries from potential remisier/customers on fixed return

commission. However, no reply or action on the emails from the Noticee is noted.

6. Based on the investigation and forensic audit, the Exchange issued a show-cause notice ("**SCN-1**") dated September 23, 2022, to the Noticee seeking an explanation for the observed non-compliances with the regulatory provisions. The Noticee, vide its email dated October 15, 2022, replied to the SCN-1.

### **SUPPLEMENTARY SHOW-CAUSE NOTICE (SCN-2)**

7. The Exchange made further enquiries based on additional information available on various social media platforms. The observations are as under:
  - a. Video broadcasted in the YouTube Channel of Aaj Bangla
    - i. The video clip is a media coverage of an investor awareness camp held in Arambagh, West Bengal by MOL Group. The MOL Group comprises of LFS Broking Pvt. Ltd. (Noticee), LFS Broking & PMS Services, Moldarin Investments & Leniq Advisors Pvt. Ltd. etc.
    - ii. The video clip shows active/prospective investors gathered to attend the event to invest funds with the Noticee and its associates since it is offering 2% monthly assured returns. Further, as per the media report, approximately 30,000 people attended the event.
    - iii. The event is attended by remisers/agents of the Noticee who introduce such investors to the Noticee and its associates. These investors confirmed to the media personnel that they invested funds with the Noticee and its associates.
    - iv. The video clip shows investors interacting with media personnel and sharing their experience of receiving monthly returns. Some of the investors stated that they are attending the event to learn more about the investment schemes offering assured returns.
    - v. The Noticee stated that it is running investment schemes offering assured returns across the nation and has the experts to run such schemes. Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee, stated that its research team is providing stock tips, thereby minimizing the risk, and providing better returns than bank fixed deposits.
    - vi. The link to the video clip is <https://bit.ly/3Eny3Nc>.

b. Social media posts available across various platforms

The Exchange found various posts on Facebook in the name of LFS Broking & PMS Services highlighting assured monthly returns. The screenshots of such posts are attached as **Exhibit 1, 2 & 3**.

8. In view of the above, the Exchange issued supplementary show-cause notice ("**SCN-2**") dated November 12, 2022, to the Noticee seeking an explanation on the evidence, viz. video clip and social media posts, alleging involvement of the Noticee in offering assured returns. The Noticee, vide its email dated November 26, 2022, replied to the SCN-2.

**REGULATORY PROVISIONS**

9. Based on the observations made out in paragraph 3 above, the following acts of the Noticee violate the provisions of the Rules of the Exchange, and the circulars issued by SEBI and Exchange:

9.1 Engagement as a principal in a business other than securities involving personal financial liability

a. Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

8. *The rules relating to admission of members of a stock exchange seeking recognition shall inter alia provide that:*

(3) *No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if –*

(f) *he engages either as a principal or employee in any business other than that of securities [or commodity derivatives] except as a broker or agent not involving any personal financial liability.*

b. Clause A (5), Schedule II, SEBI (Stockbroker) Regulation, 1992

A. *General*

(5) *Compliance with statutory requirements: A stockbroker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.*

- c. Regulation 4.5.1 of NSEIL Regulations (CM and F&O Segments)

**4.5.1 ADHERENCE TO SEBI CODE OF CONDUCT**

*The Trading Member shall at all times subscribe to the Code of Conduct as prescribed by the Securities and Exchange Board of India (Stockbrokers) Regulations, 1992.*

- d. Rule 3(d) of Chapter IV of NSEIL Rules

Misconduct

*(3) A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:*

*(b) Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general.*

- e. SEBI Circular No. SMD/POLICY/CIR-6/97 dated May 7, 1997

*It has been opined that borrowing and lending of funds, by a trading member, in connection with or incidental to or consequential upon the securities business, would not be disqualified under Rule 8(1)(f) and 8(3)(f).*

- f. Exchange Circular No. NSE/COMP/50957 dated January 7, 2022

*Members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability.*

*In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below:*

*5. Engaging into activities/schemes of unauthorised collective investments/portfolio management, promising or indicating fixed/guaranteed/regular returns/capital protection.*

9.2 Failure to make arrangements for internal review of the business to detect and prevent violations and achieve compliance of the Byelaws, Rules and Regulations of the Exchange

Regulation 4.2.2 of NSEIL Regulations (CM Segment)

*Each Trading Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with Bye Laws, Rules and Regulations.*

**PAST PROCEEDINGS BEFORE MCSGFC**

10. The Exchange placed the matter before the Committee in its meeting held on October 31, 2022. The Exchange, vide its email dated October 20, 2022, provided the Noticee with an opportunity for a personal hearing before the Committee. On behalf of the Noticee, Mr. Soumitra Sinha - Director, Mr. Shambhu Mishra - Compliance Officer, Mr. Chandan Manna - Regional Manager, and Mr. Ashok Kumar Singh - Authorized Representative, appeared before the Committee and made the following oral submissions:
- a. The case is framed completely based on misconstruction of law. The entire case revolves around Mr. Saiyad Jiajur Rahman, Director/Shareholder.
  - b. There are two entities, viz. LFS-PMS (proprietorship firm of Mr. Saiyad Jiajur Rahman) and MOLC (partnership firm of Mr. Saiyad Jiajur Rahman). Neither the Company Law nor the Byelaws of the Exchange bars a director/shareholder of a Trading Member from becoming a director/proprietor in any other entity.
  - c. 87% of the total shareholding of the Noticee is controlled by Mr. Saiyad Jiyajur Rahaman.
  - d. Only the Noticee is involved in the broking business. The proprietorship/partnership firms are engaged in real estate business, primary material supply etc., and are not involved in the securities market.
  - e. The Noticee is not engaged in proprietary trading. It does not have any trading account in the name of LFS-PMS and MOLC.
  - f. The Trading Member is not allowed to do business other than securities either as a principal employer or employee. Therefore, the Noticee is not engaged in any business other than securities.
  - g. The conversation referred to in SCN is with a potential client.

- h. Though the Noticee is a registered as Portfolio Manager with SEBI since May 7, 2019, it did not undertake any business till date due to Covid-19 pandemic. No client is registered with the Noticee for PMS. The Noticee denied issuing any advertisement for PMS.
  - i. The Noticee did not offer assured return to its clients. The forensic auditor too did not identify such observation.
  - j. The clients referred to in the SCN are potential clients. There is no investment from these clients.
  - k. Mr. Saiyad Jiyajur Rahaman would take exit from the directorship within 2 months.
- 11. Since the Noticee refuted the charge of offering assured returns, the Committee inquired with the Exchange whether any further evidence could be provided. The Exchange produced the evidence in the form of video clipping and pamphlet to substantiate the said charge. The Exchange screened the video clipping and displayed the pamphlet. It is apparent from the video clipping of the News Aaj Bangla Channel on YouTube that the Noticee is already giving 2% monthly assured returns to its clients and providing commissions to its remisers/agents who are introducing such clients. The Noticee is doing this kind of business across the nation and has the experts to run such business. Mr. Sayed Jiyajur Rehman is observed speaking with the media personnel about the research team providing stock tips and minimizing the risk and providing good returns. The pamphlet contains the details about assured return along with name, office address, contact numbers, email id, SEBI registration number and logo of the Noticee. Thereafter, the Noticee accepted the video clipping on assured returns and confirmed that the contact details on the pamphlet pertains to the Noticee.
- 12. The Committee noted the following:
  - a. From the records of the Exchange, it is observed that Mr. Saiyad Jiyajur Rahaman is the Dominant Promoter and Director of the Noticee. Mr. Saiyad Jiyajur Rahaman is a Partner of MOLC and Proprietor of LFS-PMS and MOLC.
  - b. There is inflow and outflow of funds between the registered clients of Noticee and LFS-PMS and MOLC. 333 registered clients of the Noticee have credited funds amounting to Rs.2.01 crores to the accounts of LFSPMS and MOLC maintained with IDBI Bank. Further, 6219 registered clients of the Noticee received funds amounting to Rs.266 crores from the accounts of LFS-PMS and MOLC maintained with IDBI Bank.

- c. There is outflow of funds from LFS-PMS and MOLC to the key managerial personnel, shareholders, and other related entities of the Noticee. Rs.32.83 crores were transferred from the accounts of LFS-PMS and MOLC maintained with IDBI Bank Ltd. to key managerial personnel, shareholders, and other related entities of the Noticee.
  - d. There is sufficient evidence on record and produced before the Committee to indicate that the Noticee is involved in offering assured returns. The video clip and the pamphlet distributed was shown to the representatives of the Noticee who were present at the hearing and the contents thereof have not been disputed by the representatives of the Noticee. Though the Noticee filed a reply to the SCN-1, considering that the issues involved have a direct bearing on the assets of the innocent investors who are clients of the Noticee, the Committee found that there is a potential threat to the gullible investors. It is necessary in the interest of securities market to take emergent steps to protect the investors at large.
  - e. The Noticee, through Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director, is engaged in unwarrantable business by offering assured returns to its clients by running unauthorized portfolio management services. Further, the Noticee misled the Exchange by denying the charge of running unauthorized portfolio management scheme.
  - f. The Noticee acted irresponsibly and created significant risk for the investors. Continuity of the operations of the Noticee will seriously hamper the interest of investors and create additional risks for potential investors in the securities market.
13. In the interest of the investors and securities market, the Committee issued the following interim directions:
- a. The trading membership of the Noticee shall stand suspended in all segments with immediate effect.
  - b. The Exchange shall provide the video link and any other documents as may be sought by the Noticee with respect to the charge. The Noticee shall submit its reply within 15 days from the date of receipt of the video clip and pamphlet from the Exchange.
14. The Exchange, vide its email dated November 5, 2022, forwarded the interim order to the Noticee.

**FURTHER DEVELOPMENTS**

15. The Exchange disabled the trading terminals of the Noticee in all segments with effect from November 7, 2022, before market hours.
16. The Noticee filed an appeal before the Hon'ble Securities Appellate Tribunal ("SAT") against the order dated November 5, 2022, passed by the Committee whereby the trading membership of the Noticee was suspended in all segments with immediate effect. The Hon'ble SAT, vide its order dated November 17, 2022, set aside the order dated November 5, 2022, and directed the Noticee to file its reply to the SCN-2 and directed the Committee to decide the matter in accordance with law after giving an opportunity of hearing to the Noticee on November 28, 2022.
17. In compliance with the direction of the Hon'ble SAT, the trading membership of the Noticee was enabled in all segments with effect from November 18, 2022, and a personal hearing was granted to the Noticee on November 28, 2022.

**PRESENT PROCEEDINGS BEFORE MCSGFC**

18. The Exchange, vide its email dated November 23, 2022, provided the Noticee with an opportunity of a personal hearing before the Committee. On behalf of the Noticee, Mr. Soumitra Sinha – Executive Director, Mr. Shambhu Mishra - Compliance Officer, and Mr. Ashok Kumar Singh - Authorized Representative, appeared before the Committee and made the following oral submissions:
  - a. In its reply to SCN-2, the Noticee submitted another video clip of the same program recorded by CNBC. The Noticee requested the Committee to investigate the video clip.
  - b. The video clip provided by the Exchange in the SCN-2 was relating to an awareness program. The motto of the program was to penetrate the rural population because the people in rural areas are still investing in traditional mode.
  - c. The proprietorship/partnership firm of Mr. Saiyad Jiyajur Rahaman has nothing to do with the Noticee.
  - d. The Noticee neither offered nor provided assured returns to any of its clients.
  - e. In the forensic audit, there was no evidence of the Noticee having provided assured returns.
  - f. The Exchange is relying on a video clip of the News Aaj Bangla published on

YouTube which is unverified and unsubstantiated. The contents of the video are wrong and without any basis. The statements made in the video hold no value and the people who made comments are not the clients of the Noticee.

- g. In the video clip referred in the SCN-2, Mr. Saiyad Jiyajur Rahaman made a statement to the media personnel about the research team providing stock tips and minimizing the risk and providing good returns. Mr. Saiyad Jiyajur Rahaman mentioned the name of the Noticee in the public representation for collecting funds and offering assured returns. The Noticee accepted the aforesaid statements.
- h. Mr. Saiyad Jiyajur Rahaman resigned from the board of directors of the Noticee. However, Mr. Saiyad Jiyajur Rahaman holds 87% of the total shareholding in the Noticee Company as of date.

19. The Committee sought certain clarifications on the Noticee's contentions and the response provided to the clarifications sought are summarized hereunder:

- a. In reply to the queries raised by the investors during the awareness program held by MOL group, whether Mr. Saiyad Jiyajur Rahaman made a statement that he has an intelligent investment research team which does all the investments in the Noticee Company and therefore assured good returns on investments? Is it not assured returns? Is it not collective investment scheme under SEBI Regulations?

Response: The representative of the Noticee confirmed that Mr. Saiyad Jiyajur Rahaman made a statement that he has an intelligent investment research team. However, he denied that Mr. Saiyad Jiyajur Rahaman made a statement of assuring good returns on investments.

- b. Whether Mr. Saiyad Jiyajur Rahaman mentioned the name of the Noticee Company in the awareness program held by MOL group?

Response: Yes.

- c. Whether the video clip provided by the Exchange is fake and manufactured?

Response: The contents of the video are wrong and without any basis. The statements made by the public in the video are of no value. The people standing in queue or interviewed are not its clients. The statements are unverified and uncorroborated. The representative of the Noticee stated that he is not in a position to comment or technically verify whether the video clip is fake and manufactured.

- d. Whether Mr. Saiyad Jiyajur Rahaman misrepresented the public regarding LFS-PMS to mean Portfolio Management Scheme instead of Primary Material Supply.

Response: The Noticee is registered with SEBI to provide Portfolio Management Scheme; however, till date, it did not initiate any Portfolio Management Scheme.

- e. Was Mr. Saiyad Jiyajur Rahaman connected with the securities market prior to taking over the Noticee Company? Was he an Authorized Person of a Trading Member?

Response: No

- f. What is the full form of LFS- PMS? What is the nature of business? How many clients are there with LFS-PMS? Are any returns provided to these clients? Are the funds from LFS-PMS invested in the stock market?

Response: LFS-PMS is the name of the partnership firm and PMS stands for Primary Material Supply. LFS-PMS supplies building and construction material, i.e. coal, steel, sand etc. In this business, people invest. As and when LFS-PMS earns money, it distributes the same to the clients. There are about 20,000 clients of LFS-PMS. No funds are invested from LFS-PMS in stock market. LFS-PMS is not in the securities market.

- g. How many clients of LFS-PMS are clients of the Noticee?

Response: Out of 20,000 clients of LFS-PMS, around 5000-6000 clients invested in the stock market.

- h. Whether the investors understood the difference between LFS-PMS and LFS Broking?

Response: Yes

- i. Are there any common directors in LFS-PMS and the Noticee Company?

Response: Except Mr. Saiyad Jiyajur Rahaman, there are no common directors in LFS-PMS and the Noticee Company.

- j. Whether there are 5000 investors who have trading accounts and trading through the Noticee? If yes, is the Noticee extending assured returns on the funds collected from the said investors?

Response: Yes, the 5000 investors have trading accounts and are trading through the Noticee. The Noticee is not extending assured returns on the funds collected from the investors.

- k. When did LFS-PMS commence its business?

Response: LFS-PMS started its business in 2002 and obtained its license in 2015. The Noticee was registered in 2014. Mr. Saiyad Jiyajur Rahaman acquired a controlling interest in the Noticee Company in 2017.

- l. What is the name of the bank account in which money was collected from these 20,000 investors?

Response: The name of the bank account is LFS Broking and PMS Services maintained with IDBI Bank. Mr. Saiyad Jiyajur Rahaman collects money from the investors in the name of LFS Broking and PMS Services.

- m. How many people were present in the investor awareness program?

Response: Around 15,000 people attended the investor awareness program. The MOL Group visit rural areas to create awareness of the share market.

- n. Why did Mr. Saiyad Jiyajur Rahaman open a bank account in the name of LFS Broking and PMS Services? What is the object clause of LFS Broking and PMS Services?

Response: LFS Broking and PMS Services is into real estate broking business. There is no object clause as it is a partnership and proprietorship firm.

- o. Does LFS Broking and PMS Services issue any receipt for the money collected?

Response: The entire money is received in the bank account and is part of the audited balance sheet. Further, taxes are paid regularly.

**CONSIDERATION & FINDINGS**

20. The reply of the Noticee to SCN-1 is as under:
- a. As per Byelaw 1 of Chapter XII of NSEIL Byelaws, a Trading Member is declared as defaulter *inter alia* if it is unable to fulfill its obligations. Not a single condition mentioned in the said Byelaw came to the notice of the Exchange to date. The Noticee did not mutualize the clients' funds nor defaulted in any liability against its obligations.
  - b. Neither the investigation nor the forensic audit pointed out any single instance of substantial evidence against the noted observations and the evidence mentioned in the SCN-1 do not substantiate the grave allegations.
  - c. The Exchange found observations against the partnership/proprietary firms of Mr. Saiyad Jiajur Rahman, Promoter and Director. However, those observations are outside the purview and control of the Noticee and its area of operation. The Noticee categorically denied any kind of transaction related to those entities with itself.
  - d. Mr. Saiyad Jiajur Rahman is an entrepreneur and has host of other businesses, including real estate, garments, and other commodities businesses. LFS-PMS is not related to financial services, rather it is related to real estate and primary material supply only.
  - e. The Noticee initiated steps to remove Mr. Saiyad Jiajur Rahman from the directorship.
  - f. The Noticee denied declaring or offering assured 2% monthly returns for a minimum investment of Rs.25,000/-. Since the name LFS Broking & PMS Services closely resembles with LFS Broking Pvt. Ltd., the Exchange used both the names interchangeably.
  - g. There were times when its business rivals planted people who become potential clients. In the garb of enquiring, these potential clients put words in its people's mouth, record and share those false recordings with the Exchange. The Noticee clarified through print and electronic media that it does not provide assured returns.
  - h. Mr. Saiyad Jiyajur Rahaman was operating as a partner of MOLC, and proprietor of LFS-PMS and MOLC. As per Section 2(20) of the Companies Act, 2013, 'Company' means a company incorporated under this Act or under any previous company law. On registration, a company becomes a body corporate. A separate legal entity is a person recognized by law - a "legal person". The entity has its own legal rights and obligations, separate to those

running and/or owning the entity. A company has a distinct entity and is independent of its members or people controlling it. It is regarded as a single juristic person distinct from its members who constitute the company. The separate legal entity enables a company to own property and to deal with it in the way it likes. No member, either individually or jointly, can claim the right of ownership in the assets of the company during its existence or in its winding up process. Again, a separate legal entity means that only the company is responsible to repay creditors and to get sued for its deeds. The individual members cannot be sued for actions performed by the company. Similarly, the company is not liable to pay personal debts of the members etc. Hence, the action of one of the Director, Mr. Saiyad Jiyajur Rahman's activities through his other proprietary concern do not rest binding upon the Noticee as it is a separate entity and has its own set of books of accounts, bank accounts, clients etc.

- i. There was a clear firewall with respect to the transactions between the Noticee and LFS-PMS and MOLC unless authorized by the client itself. Hence all the presumptions and assumptions are strictly denied in absence of any concrete and substantial evidence.
- j. The Noticee provided point-wise clarification to the observations of the Exchange relating to investigation mentioned in the SCN-1 as under:
  - A. Engagement as a principal in a business other than securities involving personal financial liability
    - a. *The Exchange observed that cheque No.000001 dated April 15, 2021, for Rs.10 lakhs issued by one Mr. Srikant Das in favour of LFS Broking & PMS Services was deposited in A/c. No. 1138102000008907 maintained with IDBI Bank Ltd. (IDBI). Upon verification of the bank statements of A/c. No. 1138102000008907 for the period April 2, 2021, to June 28, 2022, the Exchange observed as under:*
      - i. *The account is in the name of LFS Broking & PMS Services.*
      - ii. *The account belongs to Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee (PAN: BCNPR5031A).*
      - iii. *The account is a proprietary account opened on June 13, 2017, and operated by Mr. Saiyad Jiyajur Rahaman.*
      - iv. *The nature of business mentioned is "Real Estate" in the account opening form and "Building Construction" in the trade license.*
      - v. *The funds amounting to Rs.626.39 crores and Rs.626 crores were credited and debited, respectively.*

Reply: Mr. Saiyad Jiyajur Rahman is the Dominant Promoter and Director of the Noticee; however, the Noticee being a separate legal entity from its directors, has nothing to do with the business interest of its directors. The Noticee does not have access to the bank details of LFS-PMS as there is a firewall with respect to the businesses of the Noticee and Mr. Saiyad Jiyajur Rahman. Hence, the Noticee is not in the position to respond to the observation.

- b. *Upon verification of the bank statements of A/c. No. 1138102000001649 maintained with IDBI for the period April 3, 2021, to June 28, 2022, the Exchange observed as under:*
- i. *The account is in the name of MOL Commodities (MOLC).*
  - ii. *The account belongs to Mr. Saiyad Jiyajur Rahaman (PAN BCNPR5031A).*
  - iii. *The account is a proprietary account opened on November 18, 2013, and is operated by Mr. Saiyad Jiyajur Rahaman.*
  - iv. *The funds amounting to Rs.190.89 crores and Rs.189.72 crores are credited and debited, respectively.*

Reply: Since the Noticee and MOLC are separate legal entities, both have nothing related thereof nor any compulsion and requirement to explain about each other's business activities. Hence, the Noticee denied of having any awareness and understanding of the data except Mr. Saiyad Jiyajur Rahman's common presence in both the entities.

- c. *Upon comparative analysis of the bank statements of A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank vis-à-vis the UCC database of the Noticee, it is observed that 333 registered clients have credited funds amounting to Rs.2.01 crores to the aforesaid accounts through UPI payments.*

Reply: There may be fund movement in the name of the clients who may have opened accounts with the Noticee as well the other entities. None of the clients, who have opened their trading-cum-demat accounts with the Noticee, have the privilege to flush the funds other than from their own mapped bank accounts. The Noticee denied the allegation of fund movement in the ledgers maintained with the Noticee and LFS-PMS or MOLC.

- d. *Upon analysis of beneficiary details of transactions in the bank account of LFS Broking & PMS Services bearing A/c. No. 1138102000008907 and MOL Commodities bearing A/c. No. 1138102000001649 vis-à-vis bank account details captured in Unique Client Code records of all clients of the Noticee, it is observed that 6219 registered clients of the Noticee have received funds amounting to Rs.266 crores from the said accounts from April 2, 2021, to June 28, 2022.*

Reply: None of the clients, who opened trading-cum-demat accounts with the Noticee, have any entries of getting funds from the alleged entities, viz. LFS PMS or MOLC. The Noticee denied the allegation of receipt of funds from the accounts of LFS-PMS and MOLC.

- e. *As per the records of the Exchange, MOLC is an erstwhile Authorized Person of ITI Securities Broking Ltd. for the period April 1, 2013, to June 28, 2016. Upon verification of PAN, it is observed that Mr. Saiyad Jiyajur Rahaman was operating as a partner of MOLC, proprietor of LFS-PMS and MOLC, and dominant promoter and director of the Noticee.*

Reply: The Noticee is neither concerned nor in a position to confirm the details of the prior engagement of Mr. Saiyad Jiyajur Rahman.

- f. *Upon further analysis, it is observed that LFS-PMS and MOLC are operating through multiple bank accounts maintained with Punjab National Bank, HDFC Bank etc.*

Reply: The Noticee neither confirms nor denies the above observation.

- g. *The Exchange identified multiple bank accounts in the name of LFS-PMS and Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank. Upon verification of bank statements of A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank for the period April 1, 2021, to June 30, 2022, it is observed as under:*

- i. *In 8 instances, funds amounting to Rs.9.30 crores were transferred from the account of MOLC maintained with Punjab National Bank to A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank.*
- ii. *In 10 instances, funds amounting to Rs.1.83 crores were transferred from A/c No.59208348789850 of Mr. Saiyad Jiyajur Rahaman maintained with HDFC Bank to A/c No. 03590340000090*

*of LFS Broking Pvt. Ltd. Proprietary Account maintained with HDFC Bank.*

Reply: The Noticee received Rs.1.83 crores from Mr. Saiyad Jiyajur Rahaman during the observation period. These are permitted transactions. Out of Rs.1.83 crores, Rs.1 crore is utilized towards capitalization of share capital and the balance Rs.83 lakhs is obtained by the Noticee as loan and therefore returned to Mr. Saiyad Jiyajur Rahman.

- h. During the period April 2, 2021, to June 28, 2022, funds amounting to Rs.32.83 crores were transferred from A/c. No. 1138102000008907 of LFS-PMS and A/c. No. 1138102000001649 of MOLC maintained with IDBI Bank to key managerial personnel, shareholders, and other related entities of the Noticee.*

Reply: The Noticee denies any relationship of these alleged payments with the operations of the Noticee. The senior personnel are not present in the town to give specific comments upon the nature of the payments received. However, some of the names mentioned in the narration like 'nursery' indicates existence of some other kind of business relationship with the mentioned entities. Mr. Saiyad Jiyajur Rahman has other businesses, and it may be possible that these payments would have been made in lieu of some services. Further, the Noticee has no power to look in the other sources of its promoters.

The broking business is the latest venture of Mr. Saiyad Jiyajur Rahman, and all those mentioned businesses were run by him way before the broking business was taken over in 2017. To take over and successfully run the broking business, huge funds were required for taking membership of NSE, BSE, MCX and DP license from CDSL and these entire expenses were also funded by earnings from those other business ventures only.

LFS-PMS is a proprietary concern and involved in real estate business and it has nothing to do with alleged unauthorized portfolio management services (PMS). Being in the real estate, its business interest includes real estate, brokerage and primary material supply in the real estate like wood, cement, metals, bricks, concrete, clay used in construction.

The observed payments had nothing to do with the broking activities of the Noticee. There is not a single transaction directly with these entities.

- i. *Upon carrying out a search for registered portfolio managers on the website of the Securities and Exchange Board of India (SEBI), the Exchange did not find any records in the names of LFS-PMS and MOLC. Therefore, it is evident that LFS-PMS and MOLC are running an unauthorized portfolio management service (PMS). However, the Noticee is a Registered Portfolio Manager.*

Reply: The Noticee has PMS license since May 2019; however, till date, it did not initiate any PMS services.

- k. The Noticee provided point-wise clarification to the observations of the forensic audit mentioned in the SCN-1 as under:

A. Engagement as a principal in a business other than securities involving personal financial liability

a. Pay-outs to the clients having debit balances

*Upon verification of client ledgers, it is observed that the Noticee made pay-outs to the clients having debit balance the day prior to the fund transfer or the balance turning into a debit balance after the pay-out was made in 7 instances of 6 clients involving Rs.6,63,700/-.*

Reply: The forensic auditor failed to trace any kind of sustainable indication of violation of mandate of the Rules, Byelaws and Regulations of the Exchange. All the observations are not appropriate to suggest that the Noticee passed any undue credit benefit to the debit clients. Moreover, the Noticee has more than 3,000 clients. In the case of 7 clients, pay-outs were not done as a regular activity, but because of credit entries due, payment against IGRP order or migration of back-office software which were later recovered. The Noticee did not follow the practice of passing on credits to continuous debit balance clients.

b. Scheme assuring fixed return to the clients

*Upon perusal of the recording of the telephonic conversation between Mr. Manish Sarwan, Area Head – Senior Manager, Kolkata of the Noticee and a potential client regarding the fixed return scheme, it is observed that the Noticee is involved in providing assured returns to its clients. A summary of the translated conversation is as under:*

*Apart from broking business, LFS offers 15% p.a. return on money given to LFS under PMS. Manish gave example of how when bank goes bankrupt, as per government norms, customers won't get more than Rs.1 lakh. He explained that under PMS, the comparative risk is*

*negligible. Broker shall give payout within 24 hours. If within 3 months, customer has unutilized money and there is no trading activity, broker must return money to client. PMS has no lock-in period. Further, he provided example that if Rs.20 lakhs is invested by client, the client will earn monthly interest of approx. Rs.15,000 (calculated @15% p.a.). Manish is further noted saying that it is not illegal as client will give money to LFS through cheque. He further advised client that he can show advisory certificate so that it is allowable by Income Tax. Also, Manish was noted saying that it is not chit fund. Client money will be debited from bank account and shares bought credited to demat account.*

Reply: The Noticee denies authorizing or directing to offer assured returns. To counter the unqualified rumors about the Noticee offering assured returns, it immediately started giving clarifications through print and electronic media like newspaper statements. This mischief mongering is a result of business rivalry.

The Noticee complained to the police about malafide campaign against it. It is also interested to know the real forces behind this mischievous campaign and will support the Exchange in finding the real culprit. It never authorized anyone to give assurance on its behalf but the salespeople in the garb of completing the sales target involve in such talks. The Noticee never encouraged to open any account where it guaranteed any kind of assured returns.

**B. Failure to make arrangements for internal review, at least annually, of the business to detect and prevent violations and achieve compliance of the Byelaws, Rules and Regulations of the Exchange**

**a. Complaints from clients regarding fixed return**

*Upon review of the emails sent by the clients to the Noticee, it is observed that the clients were either enquiring about the fixed returns provided by the Noticee or complaining about the Noticee's failure to provide potential fixed monthly return on their investments. Some key enquiries and complaints are as follows:*

- i. Mr. Kumar Vaibhav (Client Code: 120000006) – The Noticee informed the client that he will receive Rs.20,000/- per month on his investment of Rs.1,00,000/-. The client complained about unauthorized trading in his account. Upon review of the client ledger, it is observed that the client initially invested Rs.1,00,000/- on October 5, 2019. Against the total investments of Rs.1,48,414/- during the review period, the Noticee paid Rs.4,87,905/- to the client. However, there was no potential fixed monthly pay-outs to*

*the client. The payouts made to the client were towards trading activities in the client ledger as net bill entries (profit) reflected in client ledger amounted to Rs.2,44,904/-*

Reply: The forensic auditor miserably failed to identify any misdeeds as alleged throughout the SCN-1. The entire observation is incorrect as the ledger itself shows that all the funds were paid after the available credit balance in the account. The extra pay-out is the result of the pay-out out of sale proceeds of the shares which were received from Angel's demat account to its own demat account.

- ii. *Mr. Bhaskar Pathak (Client Code: 117000002) – The client complained that the Branch Manager of the Noticee at Guwahati, guaranteed that the Noticee will provide 20% profit per month. Additionally, the client complained about unauthorized trading in his account without his knowledge. Upon review of the client ledger, it is observed that the client initially invested Rs.50,000/- on November 16, 2018. Against the total investments of Rs.50,000/- during the review period, the Noticee paid Rs.50,431/- to the client. The net bill entries (loss) reflected in the client ledger amounted to Rs.8,899/-.*

Reply: The excess pay-out was made due to IGRP order.

- iii. *Mr. Dipankar Ghosh (Client Code: 112060152) – The Noticee issued a cheque for Rs.20,000/- in favor of LFS PMS Services. He did not receive any intimation of monthly pay-out of 2% on his deposit. He requested the Noticee to provide certificate of investment/deposit and e-statement. However, no reply on the email from the Noticee is noted. Upon review of the client ledger, no bank payment/bank receipt entries or trading activities is noted. Additionally, no ledger or bank account is noted under the name of LFS PMS Services.*

Reply: The observations are self-explanatory. Mr. Ghosh did not open an account with the Noticee. Hence the emails from Mr. Ghosh were not entertained as he is not a registered client with the Noticee.

- b. *Investment documents not shared with client*

*Ms. Ghoshal Sudipta (Client Code: 112011056) – The client claimed that she did not receive any document against her investment. She*

*requested for monthly commission statement to be sent to her UBI account. However, no reply on the email from the Noticee is noted.*

Reply: It did not allow any kind of communication because it allow broking services only where customers execute trades based upon available funds in their trading account and for claiming the credit balance.

c. Enquiries from potential customers on fixed return

- i. *The Noticee received 3 emails on its email ID customersupport@lfsbroking.co.in wherein people were enquiring about potential fixed returns offered by the Noticee in terms of guaranteed monthly returns or 2% monthly interest or monthly interest return. These emails were then forwarded to Mr. Soumitra Sinha, Director or Mr. Chandan Manna, Branch Manager, Arambagh. However, no reply on the email from the Noticee is noted.*
- ii. *An email was noted whereby the sender Mr. Tapash Chowdhury questioned the Noticee about the security of principal amount and enquired whether it was a ponzy scheme. However, no reply on the email from the Noticee is noted.*

Reply: The Noticee neither designed nor planned any kind of alleged assured return service. It cannot comment upon the business interests of its Director as it is outside the preview of framework of the broking operations.

d. Enquiries from potential remisier on fixed return commission

*Emails were noted regarding fixed monthly income, its benefits and how one can become a remisier with the Noticee. Reference was given to the scheme which gave 2% of return every month and 1% as commission to the remisier. However, no reply to these emails from the Noticee is noted. The complaints from the clients or enquiries received by the Noticee were forwarded to the directors of the Noticee, i.e. Mr. Soumitra Sinha or Mr. Saiyad Rahaman Jiyajur or both. However, no reply on the emails from the Noticee is noted either denying or accepting the observation. In one case, the Noticee mutually settled the client's complaint in Grievance Redressal Committee of the Exchange. In another case, the Noticee reversed the brokerage paid by the client. It is observed that the Noticee received multiple emails enquiring about fixed returns to the clients. Additionally, the Noticee received complaints from existing clients whereby the clients*

*complained that the Noticee failed to provide potential fixed monthly return to them on their investments. The Noticee received enquiries from potential remisier / customers on fixed return commission. However, no reply or action on the emails from the Noticee is noted.*

Reply: The Noticee did not engage in offering assured returns. Hence, its management did not respond to such queries.

21. The reply of the Noticee to SCN-2 is as under:

- a. Mr. Saiyad Jiyajur Rahaman resigned from the directorship of the Noticee with effect from October 14, 2022. It has been updated with the Registrar of Companies. He is no longer a director as per the records.
- b. This reply shall be read along with its earlier reply dated October 15, 2022.
- c. Since 2015, Mr. Saiyad Jiyajur Rahaman, the Ex-Director was in the business of trading in construction and other materials and broking of real estate transactions through a proprietorship named of LFS-PMS and a partnership named MOLC. Neither of these entities have been trading in the securities market nor do they have any trading or demat accounts. More than 20,000 parties invested/made deposits in these two other businesses since 2015.
- d. In 2017, pursuant to permissions granted by SEBI and the Exchange, Mr. Saiyad Jiyajur Rahaman acquired a controlling interest in the Noticee, which was registered as a Trading Member since 2014. Thereafter, many investors of the aforesaid two other entities also became trading clients of the Noticee.
- e. The Exchange initiated a forensic audit of the Noticee to ascertain whether the Noticee was running any assured returns scheme during April 1, 2018, to July 7, 2021. The forensic audit report was not disclosed to the Noticee. Moreover, in their findings of forensic audit, nothing came out as assured return to any of the clients of the Noticee. Neither the Exchange nor the forensic auditors have identified even a single instance of any fixed return being paid by the Noticee to any registered client, or of any portfolio management by the Noticee.
- f. On the contrary, the Noticee received queries regarding fixed return schemes. The Noticee, on its own, issued public notices in newspapers categorically stating that the Noticee does not offer any fixed/assured returns.
- g. The Noticee provided point-wise clarification to the observations of the Exchange mentioned in the SCN-2 as under:

- A. *The Exchange placed the matter before MCSGFC in its meeting dated October 31, 2022, for decision. During the personal hearing, the representatives of the Noticee refuted the charge of offering assured returns to the investors. Therefore, the Exchange screened the video clip and displayed the social media posts, contents thereof have not been disputed by the representatives of the Noticee.*

Reply: The Noticee did not dispute the contents of the post. The Noticee never issued any post/pamphlet for assured income and the presented documents have nothing to do with the Noticee. Further, it also came across such postings in the social media. Time and again, it issued categorical denial from the management, and presented the copies of the same before the Committee and the Hon'ble SAT. The Noticee is a law compliant company and categorically deny offering any kind of assured and guaranteed income.

- B. *The Exchange made further enquiries based on additional information available on various social media platforms. The observations are as under:*

a. *Video broadcasted in the YouTube Channel of Aaj Bangla*

- i. *The video clip is a media coverage of an investor awareness camp held in Arambagh, West Bengal by MOL Group. The MOL Group comprises of LFS Broking Pvt. Ltd. (Noticee), LFS Broking & PMS Services, Moldarin Investments & Leniq Advisors Pvt. Ltd. etc.*
- ii. *The video clip shows active/prospective investors gathered to attend the event to invest funds with the Noticee and its associates since it is offering 2% monthly assured returns. Further, as per the media report, approximately 30,000 people attended the event.*
- iii. *The event is attended by remisers/agents of the Noticee who introduce such investors to the Noticee and its associates. These investors confirmed to the media personnel that they invested funds with the Noticee and its associates.*
- iv. *The video clip shows investors interacting with media personnel and sharing their experience of receiving monthly returns. Some of the investors stated that they are attending the event to learn more about the investment schemes offering assured returns.*
- v. *The Noticee stated that it is running investment schemes offering assured returns across the nation and has the experts to run such schemes. Mr. Saiyad Jiyajur Rahaman, Dominant Promoter and Director of the Noticee, stated that its research team is providing*

*stock tips, thereby minimizing the risk, and providing better returns than bank fixed deposits.*

Reply: The Noticee enclosed the certified copy of the transcription of the video clip provided by the Exchange in SCN-2 and the video link <https://youtu.be/aYAeil-JnNA> of the same event covered by the CNBC.

The video clip shown at the personal hearing dated October 31, 2022, is an unverified third-party video. Even the impugned order dated November 5, 2022, referred, and relied on a video clip on YouTube and a pamphlet. The video clip cannot justify suspension of the trading membership of the Noticee. A few people standing in queue before entering the venue of program said that they have been informed that Rs.1 lakh will fetch Rs.2000/- monthly. This is a third-party statement. These are nothing more than hearsay utterings which is far from truth. There was no glimpse of any pamphlet distributed by the Noticee in the event. The video seems to be pre-scripted because the way the anchor is stating the achievements of MOL group, does not seem to be a part of ongoing report. One such instance is that it says 30 Mercedes were in the function whereas video is showing only Scorpios. This is simply exaggeration of the events to frame someone knowingly. In few instances, the reporter is asking questions to the local public but at some places the reporter is very much furious with the answers the public is giving and to put his own perspective he presses his own version and at some places the reporter is indicating and giving hints so that common man can answer the questions with those suggestions.

In any case the video reporting does not have any evidentiary value. The Noticee does not have any control over the video reporting. The view formed by the reporter or for that matter a few public who were standing in queue outside the program venue cannot be made ground for implicating the Noticee. These are unsubstantiated, vague, unverified, unconfirmed utterings with no knowledge of the Noticee and its actual functioning. These hearsay utterings ought to be outrightly rejected.

In contrast, the same event was covered by CNBC 18, which is a business news channel. The Noticee enclosed the video clip, and the video clip has nowhere mentioned the words assured or guarantee. It was an investor awareness program where the public at large are told about benefits of investing in the stock market. This is a way to promote equity culture.

Mr. Saiyad Jiyajur Rahaman, Ex-Director of the Noticee is encouraging his large client base in the other separate entities to come and invest in the stock market. Since at that time, he was also the Director of the

Noticee, he was trying to tell people about the benefits of investing in the stock market. The video relied upon simply puts the pre-planned script to exaggerate the things and bring the picture of false narratives and creating fake news for TRP.

b. Social media posts available across various platforms

*The Exchange found various posts on Facebook in the name of LFS Broking & PMS Services highlighting assured monthly returns.*

Reply: The Noticee denied the issuance of the pamphlets.

22. The Committee finds as under:

- a. The Noticee stated that Mr. Saiyad Jiyajur Rahaman resigned from the directorship with effect from October 14, 2022, and it updated the records with the Registrar of Companies. The Noticee provided the documentary evidence.

Upon verification, it is observed that while the Noticee provided signatory details and the date mentioned in the documentary evidence is September 11, 2022, 12:32 p.m.; but the name of company and company ID are missing. It cannot be concluded from the documentary evidence produced by the Noticee that Mr. Saiyad Jiyajur Rahaman resigned. The Noticee did not submit any other evidence of resignation. Further, the resignation of Mr. Saiyad Jiyajur Rahaman is post issuance of SCN-1 by the Exchange. Hence, this cannot be considered as suo moto preventive measures taken by the Noticee. Although Mr. Saiyad Jiyajur Rahaman may have resigned from the directorship of the Noticee, he continues to be major shareholder of Noticee and holds 87% of the total shareholding in the Noticee Company as informed by the Noticee during the personal hearing. Mr. Saiyad Jiyajur Rahaman still holds controlling interest in the Noticee Company.

- b. The Noticee stated that since 2015, Mr. Saiyad Jiyajur Rahaman, Ex-Director was in the business of trading in construction and other materials and broking of real estate transactions, through a proprietorship named of LFS-PMS and a partnership named MOLC. Neither of these entities have traded in the securities market nor do they have any trading or demat accounts. More than 20,000 parties invested/made deposits in these said 2 other businesses since 2015.

The Committee notes that although the Noticee mentioned that the proprietorship firm LFS-PMS was operating since 2015, it was registered under the Shop & Establishment Act, 1948 on April 18, 2017. Mr. Saiyad Jiyajur Rahaman became Director and Shareholder in the Noticee Company on March 31, 2017, and thereafter he registered his proprietorship firm in the

name of LFS Broking and PMS on April 18, 2017. The name of his proprietorship firm, i.e. LFS Broking and PMS, is similar to the Noticee's registered name, i.e. LFS Broking Pvt. Ltd. Mr. Saiyad Jiyajur Rahaman opened a bank account in the name of LFS-PMS on April 29, 2017. It is evident that Mr. Saiyad Jiyajur Rahaman was deceiving the investors by registering them with the Noticee, but the dealing of funds was carried out in the name of LFS-PMS, thereby camouflaging the registered name of his proprietary firm with that of the Noticee. Thus, it indicates that Mr. Saiyad Jiyajur Rahaman was in acquiescence of the above-mentioned arrangement with the investors.

- c. In its reply, the Noticee stated that PMS stands for Primary Material Supply. However, as per the trade license, the nature of business is Building Construction - Type-1.
- d. The Noticee categorically denied offering any kind of assured and guaranteed income and stated that it never issued any social media post/pamphlet for assured income and the presented documents have nothing to do with it. Further, the Noticee also came across such postings in the social media and the management has categorically denied the same. The Noticee submitted documentary evidence pertaining to public notice.

Upon perusal of the documents pertaining to public notice, it is observed that the date mentioned in the documents is October 25, 2022, and date of public notice mentioned below extracts is October 19, 2022, wherein it is stated that:

*“Any person making such commitment on electronic and print media is doing at his/her own risk and the directors/employees of LFS Broking Pvt. Ltd. is not responsible for such commitments.”*

The date of public notice, i.e. October 25, 2022, is after the date of issuance of SCN-1 i.e. September 23, 2022. The Noticee took steps post-issuance of the SCN-1 by the Exchange. Therefore, the Noticee did not initiate any kind of advertisement or notices to the market suo moto. In all the public notices, the Noticee is merely stating that it is not providing any kind of assured returns, instead of giving declaration that the Noticee is not associated whether directly or indirectly with LFS-PMS and MOLC with whom the investors are dealing in funds and the Noticee is not responsible for any unauthorized activities by such entities.

- e. Further, it is observed that Mr. Saiyad Jiyajur Rahaman has proprietary businesses in the name of LFS-PMS and MOLC and no records in the name of LFS-PMS and MOLC were found on website of the SEBI in the list of registered portfolio manager. Moreover, there are 6219 registered clients of the Noticee who received funds from LFS-PMS and MOLC. There is common interest of director in the Noticee Company and therefore the Noticee's claim

in the public notice that directors/employees are not responsible for such commitments is construed as false declaration to the investors and not tenable.

- f. The Noticee alleged that the forensic audit report was not disclosed by the Exchange to the Noticee. However, the Noticee did not raise a requisite at any point in time.
- g. The Noticee stated that it enclosed the certified copy of the transcription of the video clip provided by the Exchange and the video link of the same event covered by CNBC.

The Noticee made baseless claims without giving evidence to substantiate the same including the complaint filed against the news channel. Further, the Noticee's claim that CNBC video should be relied upon and not the other news channel is not tenable as the Noticee has not given any evidence that the video of Aaj Bangla was pre planned script to exaggerate the things and bringing the picture of false narratives and creating fake news for TRP nor provided any evidence including the complaint filed against the news channel. Further, both the videos are separate and cannot be merged into one. Hence, the Noticee's claim is not tenable. It is to be noted that video of Aaj Bangla featured hoardings of the Noticee, its shareholders including Mr. Saiyad Jiyajur Rahaman. The Noticee did not provide any comments. Hence, the Noticee undisputedly agreed that it conducted the said event in association of MOL Group and the claims of the Noticee that there is firewall among the companies is frivolous.

- h. Mr. Saiyad Jiyajur Rahaman, by using the name of the Noticee Company, is representing to the people that he has a research and analysis team who carries out technical analysis basis which investment can be made through the Noticee Company for good returns. It is observed from the transcription of CNBC video clip provided by the Noticee that the Noticee is running two schemes, viz. Value Portfolio and Trend Portfolio. It is further observed that there are 6219 registered clients of the Noticee who received funds from LFS-PMS and MOLC. All the above facts establish that the prominent shareholder who was at the helm of affairs as a Director of Noticee till October 2022 and continues to hold 87% stake in the Noticee Company, was carrying out the activities akin to Collective Investment Scheme and offering fixed/assured returns.
- i. The Noticee denied issuance of the pamphlets which were found on Facebook and stated that it will take legal recourse against such elements who are spreading such false narratives.

The Noticee's contention is not acceptable as the Noticee is a SEBI PMS registered entity. In the pamphlets, it clearly mentioned SEBI Registration

number and PMS registration number along with entity name LFS Broking Pvt. Ltd. Further, the email ID and grievance ID also belong to the Noticee along with CIN and GST number. Hence, it is evident from the pamphlet that the entity mentioned is the Noticee only which is providing assured returns. Further, the Noticee only alleged that it will file police complaint against the miscreants; however, the Noticee did not submit any documentary proof of the complaint filed with the Police.

Further, the Noticee's contention that LFS Broking Pvt. Ltd. and the related entities, viz. LFS-PMS and MOLC are different entities is not tenable as the event or promotion activities were done under the banner of MOL Group, and hence the Noticee is not maintaining any firewall among the group entities where Mr. Saiyad Jiyajur Rahaman has personal interests.

Further, the Noticee, vide its email dated December 2, 2022, stated that it closed the operations of MOLC since July 2022 and are in process to close the operations of LFS-PMS by December 2022. However, the Noticee failed to provide any proof to substantiate its claim.

## 23. **CONCLUSION**

- a. The Exchange initiated investigation and forensic audit to ascertain whether the Noticee is offering assured returns and identifying the role of the management and the directors of the Noticee in running the said activity.
- b. From the records of the Exchange, it is observed that Mr. Saiyad Jiyajur Rahaman is the Dominant Promoter and Ex-Director of the Noticee. Mr. Saiyad Jiyajur Rahaman is a Partner of MOLC and Proprietor of LFS-PMS and MOLC. However, Mr. Saiyad Jiyajur Rahaman resigned from the directorship of the Noticee only post-issuance of SCN-1 by the Exchange and continues to be the dominant promoter in the Noticee and holds 87% of the total shareholding in the Noticee. From the available records (pamphlets, video clips, bank statement as explained in detail above), it is abundantly clear that Mr. Saiyad Jiyajur Rahaman is the brain behind the PMS Services extended to thousands of clients.
- c. There is inflow and outflow of funds between the registered clients of Noticee and LFS-PMS and MOLC. 333 registered clients of the Noticee paid funds amounting to Rs.2.01 crores to the accounts of LFS-PMS and MOLC maintained with IDBI Bank. Further, 6219 registered clients of the Noticee received funds amounting to Rs.266 crores from the accounts of LFS-PMS and MOLC maintained with IDBI Bank.
- d. There is outflow of funds from LFS-PMS and MOLC to the key managerial

personnel, shareholders, and other related entities of the Noticee. Rs.32.83 crores were transferred from the accounts of LFS-PMS and MOLC maintained with IDBI Bank Ltd. to key managerial personnel, shareholders, and other related entities of the Noticee.

- e. The Noticee suo moto did not initiate any kind of preventive or corrective measures including issuing advertisement or public notices to the market. The corrective steps were initiated by the Noticee only post-issuance of SCN-1 by the Exchange.
- f. There is sufficient evidence on record produced before the Committee to indicate that the Noticee is involved in offering assured returns. The Director of the Noticee was misleading the investors by using the name of the Noticee Company to collect funds from the public. The Noticee conducted its business in an unwarrantable and unjustifiable manner. The Noticee demonstrated a lack of discipline and misconduct, thereby creating an imminent threat to the interest of the investors and securities market.
- g. The Noticee is unarguably responsible for the acts and omissions of its directors and shareholders.
- h. The continuance of trading membership of the Noticee with the Exchange is detrimental to the interest of investors and the securities market. A suspension of this nature will ensure that investor losses and exposure are not exacerbated on account of alleged wrongdoing of the Noticee. No other satisfactory alternative is available for immediately safeguarding the interest of the innocent investors that can be put in place to prevent the apprehended threat, and a suspension is necessary to protect the integrity of the market and maintain investor confidence.
- i. The Noticee acted in a reckless manner jeopardizing the interest of the investors and the securities market at large and wholly inconsistent with the just and equitable principles of trade.
- j. The Committee noted that due to the nature of the equity market, any schemes assuring fixed returns to the investors by Trading Members, or its group entities is bound to cause immense losses to the investors who have subscribed to such schemes.
- k. In view of the above, the Committee decided to pass an interim order after hearing the Noticee and scrutinizing the information produced before it

**DECISION**

24. In the interest of the investors and securities market, the Committee issues the following interim directions:

- a. The trading membership of the Noticee shall stand suspended in all segments with immediate effect till further direction.

Sd/-  
Mona Bhide  
(Chairperson)

Sd/-  
K Narsimha Murthy  
(Committee Member)

Sd/-  
Ranganayakulu Jagarlamundi  
(Committee Member)

Sd/-  
Ashishkumar Chauhan  
(Committee Member)

Date: January 31, 2023